

SOUTH SANPETE SCHOOL DISTRICT

FINANCIAL STATEMENTS

For The Year Ended June 30, 2005

SOUTH SANPETE SCHOOL DISTRICT
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Jensen & Keddington, P.C.

Certified Public Accountants

Jeffrey B. Jensen, CPA
Gary K. Keddington, CPA
Brent E. Christensen, CPA
Jeffrey B. Hill, CPA**INDEPENDENT AUDITOR'S REPORT**

To The President and Members
of the Board of Education of
South Sanpete School District
Manti, Utah

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of South Sanpete School District (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of South Sanpete School District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of South Sanpete School District, as of June 30, 2005, and the respective changes in financial position thereof, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 3, 2005 on our consideration of South Sanpete School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on the compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis, as noted on the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the South Sanpete School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, combining nonmajor fund financial statements and other supplementary information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards and the combining nonmajor fund financial statements and other supplementary information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Jensen & Kedding

October 3, 2005

SOUTH SANPETE SCHOOL DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS For The Year Ended June 30, 2005

As management of the South Sanpete School District (the District), we offer readers of the District's financial statements this narrative discussion, overview, and analysis of the financial activities of the District for the fiscal year ending June 30, 2005. We encourage readers to consider the information presented here, in conjunction with the District's basic financial statements which begin on page 12.

Financial Highlights

- The District's total net assets increased by \$849,686, as a result of the net effect of an overall net change in governmental fund balances for the year of \$223,683, recognition of depreciation as an expenditure for capital assets of \$964,948, and the reclassification of debt principal payments and capital assets of \$1,186,707 and \$404,244, respectively, out of governmental expenditures. See the "Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities" on page 17.
- At the end of the current fiscal year, assets of the District exceeded liabilities by \$18,735,619.
- General long term liabilities of the District decreased by \$1,171,527 during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the assets and liabilities of the District, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the net assets of the District changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements can be found on pages 12 - 13 of this report.

Fund financial statements. A *fund* is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the District's near-term financing requirements.

**SOUTH SANPETE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For The Year Ended June 30, 2005**

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund and the capital projects fund, all of which are considered to be major funds. Data from the other two governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* in the supplemental information in this report.

The District adopts an annual appropriated budget for its General Fund, Debt Service Fund, and Capital Projects Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 14 – 17 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the governmental entity. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are not available to support the District's own programs.

The District uses an agency fund to account for resources held for student activities and groups. The basic fiduciary fund financial statement can be found on page 19 of this report.

Notes to the financial statements. The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20 – 32 of this report.

Other information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 33 – 40 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$18,735,619 at the close of the most recent fiscal year.

The largest portion of the District's net assets (85%) reflects its investments in capital assets (e.g., land, water stock, buildings and improvements, furniture and equipment and vehicles and buses), less any related debt (general obligation bonds payable, notes payable and obligations under capital leases) used to acquire those assets, that are still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**SOUTH SANPETE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For The Year Ended June 30, 2005**

South Sanpete School District's Net Assets

	2005	2004
Current and other assets	\$ 7,296,747	\$ 7,388,458
Capital assets	21,192,581	21,753,285
Total Assets	\$ 28,489,328	\$ 29,141,743
Other liabilities	\$ 4,895,634	\$ 5,687,729
Long-term liabilities outstanding	4,858,075	5,568,081
Total Liabilities	9,753,709	11,255,810
Net assets:		
Invested in capital assets, net of related debt	15,959,506	15,348,683
Restricted	1,711,945	1,331,911
Unrestricted	1,064,168	1,205,339
Total Net Assets	18,735,619	17,885,933
Total Liabilities and Net Assets	\$ 28,489,328	\$ 29,141,743

An additional portion of the District's net assets (9%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$1,064,168 may be used to meet the District's ongoing obligations to students, employees, and creditors. The unrestricted net asset amount has been earmarked for the following purposes.

- Designation for undistributed reserve of \$500,000 or 5% of general fund budgeted revenues. As allowed by state law, the District has established an undistributed reserve within the General Fund set aside for contingencies or possible reductions in state funding and not to be used in negotiation or settlement of contract salaries.
- At the end of the current fiscal year, the District is able to report positive balances in all of the three categories of net assets, for the District as a whole.

Restricted net assets increased by \$380,034 during the year ended June 30, 2005. This increase was due to the results of operations in the Capital Projects Fund providing significant positive variance in total capital expenditures.

The total net assets of the District increased by \$849,686 during the current fiscal year. Net assets were decreased with the recognition of depreciation as an expenditure for capital assets in the amount of \$964,948. Also, net assets were increased due to the reclassification of debt principal payments and capitalized assets purchased of \$1,171,527 and \$404,244, respectively, out of governmental expenditures.

**SOUTH SANPETE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For The Year Ended June 30, 2005**

The key elements of the increase of the District's net assets for the year ended June 30, 2005 are as follows:

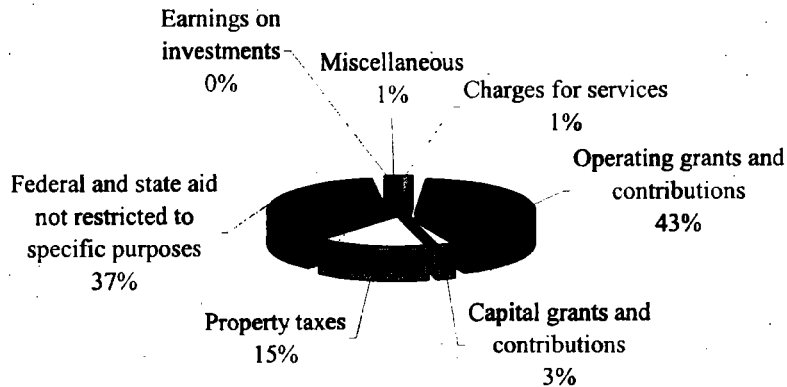
South Sanpete School District's Changes in Net Assets

	2005	2004	Increase (Decrease) from 2004
Revenues:			
Program revenues:			
Charges for services	\$ 287,630	\$ 303,838	\$ (16,208)
Operating grants and contributions	9,078,767	8,098,661	980,106
Capital grants and contributions	565,154	617,516	(52,362)
General revenues:			
Property taxes	3,334,757	3,265,098	69,659
Federal and state aid not restricted to specific purposes	7,955,087	7,586,610	368,477
Earnings on investments	97,840	58,592	39,248
Miscellaneous	299,870	396,731	(96,861)
Total Revenues	21,619,105	20,327,046	1,292,059
Expenses:			
Instructional services	14,643,113	13,596,854	1,046,259
Supporting services:			
Students	550,268	589,061	(38,793)
Instructional staff	529,065	576,153	(47,088)
District administration	312,242	353,273	(41,031)
School administration	683,754	694,174	(10,420)
Business	213,752	204,158	9,594
Operation and maintenance of facilities	1,834,678	2,013,637	(178,959)
Transportation	743,502	694,814	48,688
Other	2,352	13,056	(10,704)
School lunch services	1,065,599	1,019,537	46,062
Interest on long-term liabilities	191,094	225,318	(34,224)
Total Expenses	20,769,419	19,980,035	1,035,808
Increase in Net Assets	849,686	347,011	256,251
Net Assets - Beginning	17,885,933	17,469,096	416,837
Prior Period Adjustment	-	69,826	(69,826)
Net Assets - Ending	\$ 18,735,619	\$ 17,885,933	\$ 603,262

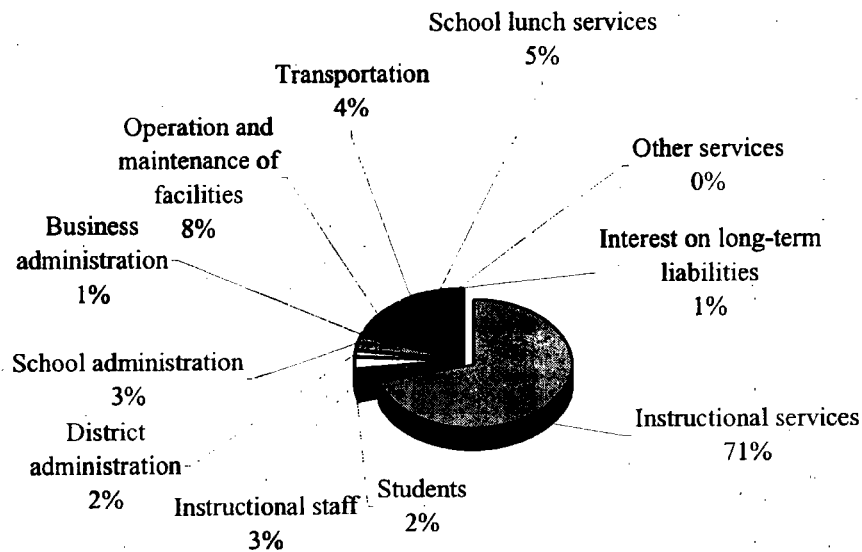
- The largest dollar increase in revenue is under operating grants and contributions. This increase is the result of additional money received from the State and Federal governments.
- Instructional services increased due to an increase in salaries and benefits paid to or for the benefit of employees of the District.
- Operation and maintenance of facilities decreased due to maintenance costs at individual schools throughout the District.

**SOUTH SANPETE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For The Year Ended June 30, 2005**

(Revenues by Source)



(Expenses by Function)



**SOUTH SANPETE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For The Year Ended June 30, 2005**

Financial Analysis of the District's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. The unreserved fund balance is divided between designated balances and undesignated balances. The District has designated portions of the unreserved fund balance to earmark resources for certain government-wide liabilities. Undesignated balances in the General Fund are required by state law to be appropriated in the following year's budget. Fund balances of Capital Projects and other governmental funds are restricted by state law to be spent for the purpose of the fund and are not available for spending at the District's discretion.

General Fund. The General Fund is the chief operating fund of the District. At the end of the current fiscal year, unreserved and undesignated fund balance was \$630,494 while the total fund balance was \$1,130,494. The total fund balance and the unreserved and undesignated fund balance decreased by \$204,800. Key factors in this decrease are as follows:

- Operating grants and contributions increased by \$980,106 primarily as a result of grants the District received for funding projects and programs exceeding expectations and grant periods ending in the prior year.
- Expenditures for general District purposes totaled \$16,671,131, an increase of 4.8% during the current fiscal year; this increase was mainly within the instructional services expenditure function due to an increase in teacher salaries and benefits.
- General fund salaries totaled \$10,032,402, while the associated fringe benefits of retirement, social security, unemployment, and health and accident insurance added \$4,423,752 to arrive at 86.7% of total general fund expenditures.
- The general fund transferred unrestricted funds to the School Lunch special revenue fund, to help eliminate the deficit fund balance, in the amount of \$60,000.

The Capital Projects Fund has a total fund balance of \$1,171,467, all of which is restricted for acquisition of capital assets and purchase of supplies, and related expenditures. The fund balance increased by \$268,508 during the current year due to the result of operations providing significant positive variance in total capital expenditures.

The Debt Service Fund has a total fund balance of \$7,298, all of which is reserved for the payment of debt service on general obligation bonds. The fund balance increased by \$5,504 during the current year primarily because the property tax and state aid receipts exceeded the debt payments for the current fiscal year.

**SOUTH SANPETE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For The Year Ended June 30, 2005**

The Non K-12 special revenue has a total fund balance of \$540,478, all of which is unrestricted. The fund balance increased by \$111,526 during the current year.

The School Lunch special revenue fund balance of \$(21,104) is restricted to the school lunch program. The negative fund balance was decreased by \$42,913 during the current year. The District is working on reducing the negative fund balance by yearly transfers from the General Fund.

General Fund Budgetary Highlights

During the year, the Board revised the District's budget. Budget amendments were to reflect changes in programs and related funding.

The difference between the original budget and the final amended budget was a decrease of \$601,855 or (3.5%) of total general fund expenditures as summarized as follows:

- \$90,957 or 12% decrease in instructional staff.
- \$126,021 or 27.6% decrease in district administration.
- \$255,020 or 14.9% decrease in operational and maintenance of facilities.

During the year final budgeted revenues were less than original budgetary estimates by \$232,786, or 1.4%.

During the current fiscal year, the \$237,489 positive budget to actual variance in total General Fund revenues, and the \$204,556 negative budget to actual variance in total general fund expenditures are largely a result of federal and state program revenues and related expenditures that do not have a direct impact on the undesignated fund balance. Program revenues are budgeted to spend all available resources. Therefore, when the budget is prepared, it is assumed these funds will not have a carryover of revenue to a subsequent year. Program revenues received but not spent is restricted and deferred to the subsequent year.

Capital Asset and Debt Administration

Capital Assets. The Capital Projects Fund is used to account for the costs incurred in acquiring and improving sites, constructing and remodeling facilities, and procuring equipment necessary for providing educational programs for all students within the District.

**SOUTH SANPETE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For The Year Ended June 30, 2005**

Capital assets at June 30, 2005 and 2004 are outlined below:

**South Sanpete School District's Capital Assets
(Net of Depreciation)**

	2005	2004
Capital assets, not being depreciated		
Land	\$ 868,527	\$ 845,027
Water stock	833,820	833,819
Total capital assets, not being depreciated	<u>1,702,347</u>	<u>1,678,846</u>
Capital assets, being depreciated		
Vehicles and buses	762,881	642,674
Buildings and improvements	18,522,543	19,188,702
Furniture and equipment	204,810	243,062
Total capital assets, being depreciated	<u>19,490,234</u>	<u>20,074,438</u>
Total capital assets	<u><u>\$ 21,192,581</u></u>	<u><u>\$ 21,753,284</u></u>

Additional information on the District's capital assets can be found in Note 3 to the basic financial statements.

Debt Administration

The general obligation bonded debt of the District is limited by state law to 4% of the fair market value of the total taxable property in the District. The legal debt limit at June 30, 2005 is \$13,795,119. General obligation debt at June 30, 2005 is \$5,233,075, resulting in a legal debt margin of \$8,562,044.

The District did not issue any new debt during the current fiscal year.

South Sanpete School District's Outstanding Debt

	2005	2004
General long-term liabilities	<u><u>\$ 5,233,075</u></u>	<u><u>\$ 6,404,602</u></u>

Additional information on the District's long-term debt can be found in Note 5 to the basic financial statements.

**SOUTH SANPETE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For The Year Ended June 30, 2005**

Requests for Information

This financial report is designed to provide a general overview of the South Sanpete School District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Business Administrator, South Sanpete School District, 39 South Main, Manti, UT 84642.

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BASIC FINANCIAL STATEMENTS

SOUTH SANPETE SCHOOL DISTRICT
STATEMENT OF NET ASSETS
June 30, 2005

Assets:

Cash and investments	\$ 3,792,392
Receivables:	
Property taxes	2,836,611
Other governments	469,439
Other	149,231
Inventories	49,074
Capital Assets, not being depreciated	
Land	868,527
Water Stock	833,820
Capital Assets, net of accumulated depreciation	
Buildings and improvements	18,522,543
Vehicles and buses	796,739
Furniture and equipment	170,952
Total Assets	\$ 28,489,328

Liabilities:

Accounts payable	\$ 118,060
Accrued interest	52,520
Accrued salaries and related benefits	1,727,567
Deferred revenue:	
Federal sources	10,201
Property taxes	2,612,286
Noncurrent liabilities:	
Due within one year	375,000
Due in more than one year	4,858,075
Total Liabilities	9,753,709

Net Assets:

Invested in capital assets, net of related debt	15,959,506
Restricted for:	
Non K-12 programs	540,478
Capital projects	1,171,467
Unrestricted	1,064,168
Total Net Assets	18,735,619
Total Liabilities and Net Assets	\$ 28,489,328

The notes to the basic financial statements are an integral part of this statement.

SOUTH SANPETE SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For The Year Ended June 30, 2005

Functions	Expenses	Program Revenues			Net (Expense)
		Charges for	Operating	Capital	Revenue and
		Services	Grants and	Grants and	Changes in
			Contributions	Contributions	Net Assets
					Total
					Governmental
					Activities
Instructional services	\$ 14,643,113	\$ 21,149	\$ 7,459,676	\$ -	\$ (7,162,288)
Supporting services:					
Students	550,268	-	15,000	-	(535,268)
Instructional staff	529,065	-	60,206	-	(468,859)
District administration	312,242	-	104,736	-	(207,506)
School administration	683,754	-	237,201	-	(446,553)
Business administration	213,752	-	-	-	(213,752)
Operation and maintenance of facilities	1,834,678	-	-	565,154	(1,269,524)
Transportation	743,502	-	444,296	-	(299,206)
Other services	2,352	-	-	-	(2,352)
School lunch services	1,065,599	266,481	757,652	-	(41,466)
Interest on long-term liabilities	191,094	-	-	-	(191,094)
Total District	\$ 20,769,419	\$ 287,630	\$ 9,078,767	\$ 565,154	(10,837,868)

General Revenues:

Property taxes levied for:

 General purposes

1,719,227

 Transportation

120,157

 Debt service

1,108,568

 Capital outlay

386,805

Federal and state aid not restricted to specific purposes

7,955,087

Unrestricted investment earnings

97,840

Miscellaneous

299,870

Total General Revenues

11,687,554

Change in Net Assets

849,686

Net Assets - Beginning

17,885,933

Net Assets - Ending

\$ 18,735,619

The notes to the basic financial statements are an integral part of this statement.

SOUTH SANPETE SCHOOL DISTRICT
BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2005

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:					
Cash and investments	\$ 1,977,685	\$ 3,456	\$ 1,147,651	\$ 663,600	\$ 3,792,392
Due from other governments	446,758	-	-	22,681	469,439
Due from other funds	153,221	-	-	-	153,221
Inventories	-	-	-	49,074	49,074
Property taxes receivable	1,466,719	905,626	464,266	-	2,836,611
Receivables - other	149,231	-	-	-	149,231
Total Assets	<u>\$ 4,193,614</u>	<u>\$ 909,082</u>	<u>\$ 1,611,917</u>	<u>\$ 735,355</u>	<u>\$ 7,449,968</u>
Liabilities and Fund Balances:					
Liabilities:					
Accounts payable	\$ 86,502	\$ -	\$ 9,689	\$ 21,869	\$ 118,060
Accrued salaries	1,626,314	-	-	101,253	1,727,567
Due to other funds	-	70,563	-	82,658	153,221
Deferred revenue:					
Local sources	-	-	-	10,201	10,201
Property taxes	1,350,304	831,221	430,761	-	2,612,286
Total Liabilities	<u>3,063,120</u>	<u>901,784</u>	<u>440,450</u>	<u>215,981</u>	<u>4,621,335</u>
Fund Balances:					
Reserved for:					
Debt service	-	7,298	-	-	7,298
Unreserved:					
Designated for:					
Undistributed reserve	500,000	-	-	-	500,000
Undesignated, reported in:					
General fund	630,494	-	-	-	630,494
Capital projects fund	-	-	1,171,467	-	1,171,467
Special revenue funds	-	-	-	519,374	519,374
Total Fund Balances	<u>1,130,494</u>	<u>7,298</u>	<u>1,171,467</u>	<u>519,374</u>	<u>2,828,633</u>
Total Liabilities and Fund Balances	<u>\$ 4,193,614</u>	<u>\$ 909,082</u>	<u>\$ 1,611,917</u>	<u>\$ 735,355</u>	<u>\$ 7,449,968</u>

The notes to the basic financial statements are an integral part of this statement.

SOUTH SANPETE SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET ASSETS
June 30, 2005

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Total fund balance - governmental funds	\$ 2,828,633
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$36,699,012 less the accumulated depreciation of \$15,506,431.	21,192,581
Interest on general obligation bonds is not accrued in governmental funds, but rather is recognized as an expenditure when due.	(52,520)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(5,233,075)</u>
Total net assets - governmental activities	<u><u>\$ 18,735,619</u></u>

The notes to the basic financial statements are an integral part of this statement.

SOUTH SANPETE SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES – GOVERNMENTAL FUNDS
For The Year Ended June 30, 2005

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenues:					
Property taxes	\$ 1,734,452	\$ 1,108,568	\$ 491,737	\$ -	\$ 3,334,757
Earnings on investments	64,577	4,815	28,448	-	97,840
School lunch sales	-	-	-	266,481	266,481
Other local sources	265,368	-	3,300	52,351	321,019
State revenue	12,806,720	269,923	295,231	1,740,344	15,112,218
Federal revenue	1,655,245	-	-	831,545	2,486,790
Total Revenues	16,526,362	1,383,306	818,716	2,890,721	21,619,105
Expenditures:					
Instructional services	12,503,866	-	-	1,607,368	14,111,234
Supporting services:					
Students	355,191	-	-	-	355,191
Instructional staff	524,583	-	-	-	524,583
District administration	260,821	-	-	-	260,821
School administration	653,242	-	-	-	653,242
Business administration	213,752	-	-	-	213,752
Operation and maintenance of facilities	1,524,070	-	-	147,694	1,671,764
Transportation	633,254	-	-	-	633,254
Other support services	2,352	-	-	-	2,352
School lunch services	-	-	-	1,041,220	1,041,220
Capital outlay	-	-	550,208	-	550,208
Debt service:					
Principal retirement	-	1,171,527	-	-	1,171,527
Interest and fiscal charges	-	206,274	-	-	206,274
Total Expenditures	16,671,131	1,377,801	550,208	2,796,282	21,395,422
Excess (Deficiency) of Revenues Over (Under) Expenditures	(144,769)	5,505	268,508	94,439	223,683
Other Financing Sources (Uses):					
Transfers	(60,000)	-	-	60,000	-
Total Other Financing Sources (Uses)	(60,000)	-	-	60,000	-
Net Change in Fund Balances	(204,769)	5,505	268,508	154,439	223,683
Fund Balances - Beginning	1,335,263	1,793	902,959	364,935	2,604,950
Fund Balances - Ending	\$ 1,130,494	\$ 7,298	\$ 1,171,467	\$ 519,374	\$ 2,828,633

The notes to the basic financial statements are an integral part of this statement.

SOUTH SANPETE SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
For The Year Ended June 30, 2005

Amounts reported for governmental activities in the Statement of Activities are different because:

Net change in fund balances - governmental funds **\$ 223,683**

Governmental funds report capital outlays as expenditures. However, in the *Statement of Activities*, assets with an initial, individual cost of more than \$5,000 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlays	\$	404,244	
Depreciation expense		(964,948)	(560,704)

The governmental funds report repayment of bond principal as an expenditure. In the *Statement of Activities*, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of the general obligation bonds and related items is as follows:

Interest expense - bonds payable	15,180		
Repayment of bond principal	355,000		
Repayment of notes payable principal	816,527		1,186,707

Change in net assets of governmental activities **\$ 849,686**

The notes to the basic financial statements are an integral part of this statement.

SOUTH SANPETE SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES – BUDGET AND ACTUAL – GENERAL FUND
For The Year Ended June 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues:				
Property taxes	\$ 1,503,766	\$ 1,317,823	\$ 1,734,452	\$ 416,629
Earnings on investments	10,000	10,000	64,577	54,577
Other local sources	590,889	632,954	265,368	(367,586)
State revenue	12,414,504	12,708,457	12,806,720	98,263
Federal revenue	2,002,500	1,619,639	1,655,245	35,606
Total Revenues	16,521,659	16,288,873	16,526,362	237,489
Expenditures:				
Instructional services	12,094,710	12,041,000	12,503,866	(462,866)
Supporting services:				
Students	385,815	397,000	355,191	41,809
Instructional staff	757,787	666,800	524,583	142,217
District administration	456,521	330,500	260,821	69,679
School administration	729,487	691,000	653,242	37,758
Business administration	209,975	239,000	213,752	25,248
Operation and maintenance of facilities	1,726,020	1,471,000	1,524,070	(53,070)
Transportation	708,115	627,575	633,254	(5,679)
Other support services	-	2,700	2,352	348
Total Expenditures	17,068,430	16,466,575	16,671,131	(204,556)
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	(546,771)	(177,702)	(144,769)	32,933
Other Financing Sources (Uses):				
Transfer out	(70,000)	(70,000)	(60,000)	10,000
Total Other Financing Sources (Uses)	(70,000)	(70,000)	(60,000)	10,000
Net Change in Fund Balances	(616,771)	(247,702)	(204,769)	42,933
Fund Balances - Beginning	1,335,263	1,335,263	1,335,263	-
Fund Balances - Ending	\$ 718,492	\$ 1,087,561	\$ 1,130,494	\$ 42,933

The notes to the basic financial statements are an integral part of this statement.

SOUTH SANPETE SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS – AGENCY FUND
June 30, 2005

	<u>Student Activities Fund</u>
Assets:	
Cash and investments	\$ <u>418,241</u>
Liabilities:	
Due to student groups	\$ <u>418,241</u>

The notes to the basic financial statements are an integral part of this statement.

SOUTH SANPETE SCHOOL DISTRICT NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of South Sanpete School District (the District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the District are described below.

In June 1999, GASB unanimously approved Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (Statement). Starting with the fiscal year ending June 30, 2003, the District implemented the Statement which made the following significant changes to the District's financial statements (including notes to the financial statements):

- A Management Discussion and Analysis (MD&A) section providing an analysis of the District's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the District's activities.
- A change in the fund financial statements to focus on the major funds.

(A) The Reporting Entity

The District's Board of Education is the basic level of government which has financial accountability responsibility and control over all activities related to the public school education in the District's boundaries. The Board receives funding from local, state, and federal government sources and must comply with the requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity" as defined by the related Governmental Accounting Standards Board Statement 14, since the Board members are elected by the public and have decision making authority, the authority to levy taxes, the power to designate management, the ability to significantly influence operation and primary accountability for fiscal matters. In addition, there are no component units as defined in Governmental Accounting Standards Board Statement 14, which are included in the District's reporting entity.

The District's basic financial statements include all of the District's operations. The basic financial statements presented herein do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from South Sanpete School District.

(B) Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include 1) charges to students or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as *general revenues*, as are internally dedicated resources.

Separate financial statements are provided for governmental funds and a fiduciary fund, even though the latter is excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

SOUTH SANPETE SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(C) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as is the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they become available. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the District receives cash.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Basis of Presentation - Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which are comprised of each fund's assets, liabilities, reserves, fund equity, revenues and expenditures, as appropriate. The various funds are summarized by type in the fund financial statements. Government resources are allocated to and for individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The following fund types are used by the District:

GOVERNMENTAL FUND TYPES

General Fund (a major governmental fund) - The general fund is the primary operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from this fund.

Debt Service Fund (a major governmental fund) - Debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Capital Projects Fund (a major governmental fund) - Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

**SOUTH SANPETE SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Special Revenue Funds (non-major governmental funds) - Special revenue funds account for revenue sources that are legally restricted to expenditure for specific purposes (not including major capital projects). The *Non K-12 Programs Fund* is statutorily segregated to account for financing as authorized by Utah state law; this fund includes community recreation, preschool, and adult education programs. The *School Lunch Fund* is deemed to be a special revenue fund as a result of substantial local, state, and federal subsidies.

(C) Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

FIDUCIARY FUND TYPE

Agency Fund - The Student Activities Agency Fund is used to account for assets held by the District in an agent capacity for student body groups. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

(D) Budgetary Data

The District is required by state law to adopt annual budgets for the General Fund, Special Revenue Funds, Debt Service Fund, and Capital Projects Fund. Each budget is presented on the modified accrual basis of accounting which is consistent with generally accepted accounting principles. All annual appropriations lapse at fiscal year end with the exception of those indicated as a fund balance reserve.

The School Board follows these procedures in establishing the budgetary data reflected in the financial statements -

- (a) Prior to May 31, the District Clerk submits to the District's Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them. Copies of the proposed budget are made available for public inspection and review by the patrons of the District.
- (b) Public hearings are conducted in the District to obtain taxpayer comments.
- (c) Prior to June 15, the budget is formally adopted after a public hearing.
- (d) The School Board is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved at a public hearing.
- (e) Minor interim adjustments in estimated revenue and appropriations during the year ended June 30, 2005, have been included in the final budget approved by the Board, as presented in the fund financial statements.
- (f) Expenditures may not legally exceed budgeted appropriations at the fund level.

Negative variances in total revenues and the positive variances in total expenditures are largely a result of the federal and state program revenues and related expenditures that do not have a direct impact on the undesignated fund balance. Budgets generally assume the expenditure of all available resources. Therefore, when the budget is prepared, it is assumed these funds will not have a carryover of revenue to a subsequent year. Program revenue received but not spent is

SOUTH SANPETE SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(D) Budgetary Data (Continued)

restricted and deferred to the subsequent fiscal year. As a result, overall fund revenues variances will be negative, and overall fund expenditures variances will be positive.

(E) Investments

Investments of the District are stated at fair value. All investments are at the Utah Public Treasurer's Investment Trust.

(F) Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds" (i.e., the current portion of interfund loans).

Other receivables at June 30, 2005 consist of property tax and grants. Taxes and grants are deemed collectible in full.

(G) Inventories

Inventories held by the School Lunch Fund are stated at cost. Federal commodity inventory is valued at fair market value as determined by the United States Department of Agriculture price lists. Commodities used during the year are reported as revenues and expenditures in the fund financial statements. Non-consumed federal food commodities on hand at year-end are recorded as deferred revenue. The consumption method of accounting is applied to all inventories.

(H) Capital Assets

Capital assets, which include land, water stock, buildings and improvements, and furniture and equipment, are reported in the government-wide financial statements. The District defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Buildings and improvements and furniture and equipment of the District are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings	40
Building improvements and portable classrooms	20
Buses	10
Musical instruments	10
Furniture	10
Office equipment	5
Athletic equipment	5
Vehicles	5
Audio visual equipment	5
Computer equipment	5

SOUTH SANPETE SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(I) General Long-Term Debt

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance cost, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

(J) Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a restricted purpose. Designation of fund balance represents tentative plans for future use of financial resources that are subject to change.

(K) Designated Fund Balance

The Members of the Board of Education of the District have elected to designate \$500,000 of the unreserved fund balance of the General Fund for subsequent years' expenditures.

(L) Excess of Expenditures over Appropriations

For the year ended June 30, 2005, expenditures exceeded appropriations in the instructional services, and in supporting service: operation and maintenance of facilities and transportation (the legal level of budgetary control) of the General Fund by \$462,866, \$53,070 and \$5,679, respectively, and in the School Lunch special revenue fund by \$10,720. These over expenditures were funded by available fund balance in the case of the General Fund and an operating transfer from the General Fund in the case of the School Lunch special revenue fund.

(M) Deficit Fund Balance

The School Lunch Fund had a deficit fund balance of \$21,104 at June 30, 2005.

(N) Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(O) Revenue Recognition - Property Taxes

Property taxes are collected by the County Treasurer and subsequently remitted to the District. Real property taxes are assessed on the taxable value of real property (as of January 1st) and are due and payable by November 30 of each year after which time they become delinquent. An accrual of uncollected current and prior year's taxes has not been made. The County Treasurer collects personal property taxes and fees in lieu of tax and remits them to the District monthly.

SOUTH SANPETE SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(O) Revenue Recognition - Property Taxes (Continued)

The certified tax rates and property tax allocation are as follows:

Minimum basic school	0.001800
Transportation	0.000292
Tort liability	0.000057
Debt service	0.002694
Capital outlay	0.000940
Additional	0.000255
Voted Leeway	0.001556
Local incentive	0.000510
	0.008104

NOTE 2 CASH AND INVESTMENTS

The District utilizes a pooled arrangement for its cash. Interest is allocated on the basis of the amount contributed to the cash pool by fund for specific time periods.

The District's deposit and investment policy is to follow the Utah Money Management Act. However, the District does not have a separate deposit or investment policy that addresses specific types of deposit and investment risks to which the District is exposed.

The District follows the requirements of the Utah Money Management Act (Utah Code Annotated 1953, Section 51, Chapter 7) in handling its depository and investment transactions. This law requires the depositing of District funds in a "qualified depository". The Act defines a "qualified depository" as any financial institution whose deposits are insured by an agency of the Federal government and which has been certified by the state commissioner of financial institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

The Money Management Act also governs the scope of securities allowed as appropriate investments for the District and conditions for making investment transactions. Investment transactions are to be conducted through qualified depositories or primary reporting dealers.

As of June 30, 2005, the District had the following deposits and investments:

<u>Deposit and investment type</u>	<u>Cost</u>	<u>Fair Value</u>
Cash on deposit	\$ 1,189,390	\$ 1,189,390
State Treasurer's investment pool	2,562,542	2,562,937
	\$ 3,751,932	\$ 3,752,327

SOUTH SANPETE SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

NOTE 2 CASH AND INVESTMENTS (Continued)

Deposits

At June 30, 2005, the carrying amount of the District's deposits was \$1,229,852 and the bank balance was \$1,889,390 in accounts covered by federal deposit insurance up to \$100,000. Deposits are not required to be collateralized by state statute.

The District's cash and cash equivalents and investments are exposed to certain risks as outlined below:

Interest rate risk is the risk that changes in the interest rates will adversely affect the fair value of an investment. The City manages its exposure by investing only in the Utah Public Treasurers Investment Fund.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District only invests in the Utah Public Treasurer's Investment Fund. As of June 30, 2005, the Utah Public Treasurer's Investment Fund was unrated.

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District's investment in the Utah Public Treasurer's Investment Fund has no concentration of credit risk.

Custodial credit risk – deposits is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2005, \$1,089,390 of the District's \$1,189,390 balance of deposits was exposed to custodial risk because it was uninsured and uncollateralized.

Custodial credit risk – investments is the risk that in the event of the failure of a counterparty, the District will not be able to recover the value of its investments that are in the possession of an outside party. The District's investment in the Utah Public Treasurer's Investment Fund has no custodial credit risk.

Components of cash and investments (including interest earning deposits) at June 30, 2005 are as follows:

Cash	\$ 1,648,091
Investments	<u>2,562,542</u>
Total cash and investments	<u><u>\$ 4,210,633</u></u>
Cash and investments - governmental funds, balance sheet	\$ 3,792,392
Cash and investments - student activities agency fund	<u>418,241</u>
Total cash and investments	<u><u>\$ 4,210,633</u></u>

SOUTH SANPETE SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

NOTE 3 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 845,027	\$ 23,500	\$ -	\$ 868,527
Water stock	833,820	-	-	833,820
Total capital assets, not being depreciated	1,678,847	23,500	-	1,702,347
Capital assets, being depreciated:				
Vehicles and buses	2,152,372	271,364	(33,858)	2,389,878
Buildings and improvements	31,788,631	67,000	-	31,855,631
Furniture and equipment	708,776	42,380	-	751,156
Total capital assets, being depreciated	34,649,779	380,744	(33,858)	34,996,665
Accumulated depreciation for:				
Vehicles and buses	(1,509,698)	(151,157)	33,858	(1,626,997)
Buildings and improvements	(12,599,929)	(733,159)	-	(13,333,088)
Furniture and equipment	(465,714)	(80,632)	-	(546,346)
Total accumulated depreciation	(14,575,341)	(964,948)	33,858	(15,506,431)
Total capital assets, being depreciated, net	20,074,438	(584,204)	-	19,490,234
Total Capital Assets, Net	\$ 21,753,285	\$ (560,704)	\$ -	\$ 21,192,581

SOUTH SANPETE SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

NOTE 3 CAPITAL ASSETS (Continued)

For the year ended June 30, 2005, depreciation expense was charged to functions of the District as follows:

Instructional services	\$ 531,879
Supporting services:	
Student services	195,077
Instructional staff services	4,482
District administration services	51,421
School administration services	30,512
Operation and maintenance of facilities services	16,950
Transportation services	110,248
School lunch services	24,379
Total depreciation expense	<u>\$ 964,948</u>

NOTE 4 DEFERRED REVENUE

In conjunction with the implementation of GASB pronouncement 33 "Accounting and Financial Reporting for Nonexchange Transactions" the District has accrued property tax receivables and deferred property tax revenues in the following funds:

General	\$ 1,350,304
Debt service	831,221
Capital projects	430,761
	<u>\$ 2,612,286</u>

Property taxes attach as an enforceable lien on property as of the first day of January of the year, therefore the District has recorded an accrued property tax receivable for the estimated amount of the total property tax to be levied on October 1, 2005. The District records property tax revenues in the governmental funds using the modified accrual basis of accounting, wherein revenues are recognized when they are both measurable and available (expected to be received within 60 days). Since property taxes are levied after year end on October 1, 2005, they cannot be recognized as revenue for fiscal year 2005. Therefore, the District has recorded the estimated property tax revenue for fiscal year 2005 as deferred revenue in the fund financial statements.

The District had non-consumed federal food commodities on hand at year end in the amount of \$10,201 that have been recorded as deferred revenue.

SOUTH SANPETE SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

NOTE 5 LONG-TERM LIABILITIES

The following is a summary of changes in long-term debt for the year ended June 30, 2005:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable:					
General obligation bonds	\$ 3,385,000	\$ -	\$ (355,000)	\$ 3,030,000	\$ 375,000
Total bonds payable	3,385,000	-	(355,000)	3,030,000	375,000
Notes payable	3,019,602		(816,527)	2,203,075	-
Total governmental activity long-term liabilities	<u>\$ 6,404,602</u>	<u>\$ -</u>	<u>\$ (1,171,527)</u>	<u>\$ 5,233,075</u>	<u>\$ 375,000</u>

Payments on the general obligation bonds and notes payable are made by the Debt Service Fund with property taxes.

General Obligation Bonds

The annual requirements to amortize all general obligation bonds outstanding as of June 30, 2005, including interest payments are as follows:

Year ending June 30,	Principal	Interest	Total
2006	\$ 375,000	\$ 157,440	\$ 532,440
2007	390,000	138,690	528,690
2008	410,000	118,800	528,800
2009	430,000	97,685	527,685
2010	450,000	75,325	525,325
2011-2012	975,000	78,675	1,053,675
Total	<u>\$ 3,030,000</u>	<u>\$ 666,615</u>	<u>\$ 3,696,615</u>

In March 1997, the District issued \$3,500,000 of South Sanpete School District General Obligation School Building Bonds. These bonds are dated March 15, 1997 and have a graduated interest rate of 4.30% to 5.35% for inception to final scheduled payment, respectively.

SOUTH SANPETE SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

NOTE 5 LONG-TERM LIABILITIES (Continued)

Notes Payable

In April 1997 and in February 1998, the District originated promissory notes from the Utah State Board of Education in the amounts of \$6,000,000 and \$1,100,000 respectively, with 10 payments starting July 1, 1998 and July 1, 1999 respectively, and having an interest rate of 1% assessed on the loan annually. The funds for the note came from the Utah State Legislature's "school building revolving account" and the note proceeds are to only be used for the completion of school building projects or parts thereof within the District as approved by the Utah State Office of Education.

In November 1998, the District originated a promissory note from the Utah State Board of Education in the amount of \$1,000,000, with 10 payments starting July 1, 1999 and having an interest rate of 1% assessed on the loan annually. The funds for the note came from the Utah State Legislature's "school building revolving account" and the note proceeds are to only be used for the completion of school building projects or parts thereof within the District as approved by the Utah State Office of Education.

The annual requirements to amortize all notes outstanding as of June 30, 2005, including interest payments are as follows:

Year ending June 30,	Principal	Interest	Total
2006	\$ 824,688	\$ 22,034	\$ 846,722
2007	1,158,858	13,785	1,172,643
2008	219,529	2,195	221,724
Total	<u>\$ 2,203,075</u>	<u>\$ 38,014</u>	<u>\$ 2,241,089</u>

NOTE 6 LEASES

The District has entered into an agreement to lease the old Manti High School building to Manti City Corporation. The lease is for \$1,000 a year for 50 years, ending in the year 2034 with an option for an additional 50 years thereafter. The lessee, Manti City Corporation, is responsible for all improvements, operating costs, and insurance on the building.

NOTE 7 DEFINED BENEFIT PENSION PLAN

Plan Description - The District contributes to the School Contributory Retirement System and School Noncontributory Retirement System, cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (Systems). All District employees hired to a position expected to last at least 9 months and who work 20 or more hours per week are eligible to participate in the pensions plans. Utah Retirement Systems provides refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the School Contributory Retirement System and School Noncontributory Retirement System. A copy of the report may be obtained by writing to Utah Retirement Systems, 540 East 200 South, Salt Lake City, Utah 84102 or by calling 1-800-365-8772.

SOUTH SANPETE SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

NOTE 7 DEFINED BENEFIT PENSION PLAN (Continued)

Funding Policy - Plan members in the School Contributory Retirement System are required to contribute 6% of their annual covered salary (of which 5.0% is paid by the District for the employee) and the District is required to contribute 8.890% of their annual covered salary. In the School Noncontributory Retirement System the District is required to contribute 13.380% of their annual covered salary. The contribution rates are actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

The District contributions to the State and School Contributory Retirement System for the years ended June 30, 2005, 2004 and 2003 were \$11,407, \$9,667, and \$9,628 respectively, and for the Noncontributory Retirement System the contributions for the years ended June 30, 2005, 2004, and 2003 were \$1,189,225, \$992,795, and \$967,797 respectively. The contributions were equal to the required contributions for the year.

IRC Code Section 401K Plan - The District participates in a 401K plan offered through the Utah State Retirement System. The District's contributions for years ended June 30, 2005, 2004, and 2003 were \$163,781, \$137,088, and \$147,956 respectively. The employee's contributions for the years ended June 30, 2005, 2004, and 2003 were \$205,943, \$157,604, and \$197,766 respectively.

NOTE 8 PUBLIC ENTITY RISK POOL

The District is exposed to various risks of loss related to torts; theft of; damage to and destruction of assets; errors and omissions and natural disasters. The District participates in the Utah Local Government Insurance Trust, a public entity risk pool to manage its risk of loss. The District pays an annual premium to the trust for its general insurance coverage. The Trust was created to be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of one million dollars for each insured event. As of June 30, 2005 there were no outstanding unpaid claims. Also, the District had no claim settlements during the year which exceeded its insurance coverage.

NOTE 9 INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of "interfund balances" as of June 30, 2005, is as follows:

Fund	Receivable	Payable
General	\$ 153,221	\$ -
Debt service	-	70,563
Special revenue - School Lunch	-	82,658
	<u>\$ 153,221</u>	<u>\$ 153,221</u>

The purpose of the interfund receivable/payable is to meet the District's ongoing need for cash.

SOUTH SANPETE SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

NOTE 9 INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (Continued)

The composition of "interfund transfers" as of June 30, 2005, is as follows:

<u>Fund</u>	<u>In</u>	<u>Out</u>
General	\$ -	\$ 60,000
Special revenue - School lunch	60,000	-
	<u>\$ 60,000</u>	<u>\$ 60,000</u>

The purpose of the interfund transfers is to meet the District's ongoing need for cash.

NOTE 10 GRANTS

The District receives significant financial assistance from federal and state governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the District's independent auditors and other governmental auditors. Any disallowed claims resulting from such an audit could become a liability of the General Fund or other applicable fund. Based on prior experience, the District administration believes such disallowance, if any, would be immaterial.

NOTE 11 SUBSEQUENT EVENTS

Subsequent to year end, in August, 2005, the District issued \$2,415,000 of General Obligation Refunding Bonds, Series 2005. The proceeds of which will be used to refund in advance \$2,265,000 of the District's currently outstanding General Obligation Bonds, Series 1997, which will mature between 2008 and 2012.

SUPPLEMENTARY INFORMATION

SOUTH SANPETE SCHOOL DISTRICT
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
June 30, 2005

	<u>Special Revenue</u>		Total Nonmajor Governmental Funds
	Non K-12 Programs	School Lunch	
Assets:			
Cash and investments	\$ 663,600	\$ -	\$ 663,600
Due from other governments	-	22,681	22,681
Inventories	-	38,873	38,873
Inventories - commodities	-	10,201	10,201
Total Assets	\$ 663,600	\$ 71,755	\$ 735,355
Liabilities:			
Accounts payable	\$ 21,869	\$ -	\$ 21,869
Accrued salaries	101,253	-	101,253
Due to other funds	-	82,658	82,658
Deferred revenue:			
Federal sources	-	10,201	10,201
Total Liabilities	123,122	92,859	215,981
Fund Balances:			
Unreserved, undesignated	540,478	(21,104)	519,374
Total Fund Balances	540,478	(21,104)	519,374
Total Liabilities and Fund Balances	\$ 663,600	\$ 71,755	\$ 735,355

SOUTH SANPETE SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – NONMAJOR GOVERNMENTAL FUNDS
For The Year Ended June 30, 2005

	<u>Special Revenue</u>		<u>Total</u>
	<u>Non K-12 Programs</u>	<u>School Lunch</u>	<u>Nonmajor Governmental Funds</u>
Revenues:			
Lunch sales	\$ -	\$ 266,481	\$ 266,481
Other local revenues	52,351	-	52,351
State aid	1,580,932	159,412	1,740,344
Federal aid	233,305	598,240	831,545
Total Revenues	<u>1,866,588</u>	<u>1,024,133</u>	<u>2,890,721</u>
Expenditures:			
Instructional services	1,607,368	-	1,607,368
Supporting services:			
Operation and maintenance of facilities	147,694	-	147,694
School lunch services	-	1,041,220	1,041,220
Total Expenditures	<u>1,755,062</u>	<u>1,041,220</u>	<u>2,796,282</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>111,526</u>	<u>(17,087)</u>	<u>94,439</u>
Other Financing Sources (Uses):			
Transfer in	-	60,000	60,000
Total Other Financing Sources (Uses)	<u>-</u>	<u>60,000</u>	<u>60,000</u>
Net Change in Fund Balances	<u>111,526</u>	<u>42,913</u>	<u>154,439</u>
Fund Balances - Beginning	<u>428,952</u>	<u>(64,017)</u>	<u>364,935</u>
Fund Balances - Ending	<u>\$ 540,478</u>	<u>\$ (21,104)</u>	<u>\$ 519,374</u>

SOUTH SANPETE SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
- BUDGET AND ACTUAL - NON K-12 PROGRAMS - NONMAJOR SPECIAL
REVENUE FUND
For The Year Ended June 30, 2005

	<u>Final Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Revenues:			
Local Sources:			
Miscellaneous revenues	\$ 50,000	\$ 52,351	\$ 2,351
Total Local Sources	<u>50,000</u>	<u>52,351</u>	<u>2,351</u>
State Sources:			
Adult high school completion	274,126	274,126	-
Preschool	209,472	209,472	-
Revenues from others state agencies	1,112,534	1,097,334	(15,200)
Total State Sources	<u>1,596,132</u>	<u>1,580,932</u>	<u>(15,200)</u>
Federal Sources:			
Special education preschool grant	-	70,997	70,997
Adult education	14,500	-	(14,500)
Other revenues from federal sources	-	162,308	162,308
Total Federal Sources	<u>14,500</u>	<u>233,305</u>	<u>218,805</u>
Total Revenues	<u>1,660,632</u>	<u>1,866,588</u>	<u>205,956</u>
Expenditures:			
Salaries	1,090,000	1,043,767	46,233
Employee benefits	400,000	341,532	58,468
Purchased services	146,000	205,721	(59,721)
Supplies and materials	135,000	147,694	(12,694)
Equipment	20,000	16,042	3,958
Other expenditures	1,200	306	894
Total Expenditures	<u>1,792,200</u>	<u>1,755,062</u>	<u>37,138</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(131,568)	111,526	243,094
Fund Balances - Beginning	<u>428,952</u>	<u>428,952</u>	<u>-</u>
Fund Balances - Ending	<u>\$ 297,384</u>	<u>\$ 540,478</u>	<u>\$ 243,094</u>

SOUTH SANPETE SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
- BUDGET AND ACTUAL - SCHOOL LUNCH - NONMAJOR SPECIAL REVENUE
FUND
For The Year Ended June 30, 2005

	<u>Final Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Revenues:			
Local Sources:			
Lunch sales - children	\$ 280,000	\$ 266,481	\$ (13,519)
Total Local Sources	<u>280,000</u>	<u>266,481</u>	<u>(13,519)</u>
State Sources:			
State lunch program	112,171	159,412	47,241
Total State Sources	<u>112,171</u>	<u>159,412</u>	<u>47,241</u>
Federal Sources:			
Federal lunch program	59,718	70,519	10,801
Free and reduced assistance	397,412	401,107	3,695
Breakfast program	43,186	56,131	12,945
Special milk	4,988	4,224	(764)
Other	54,744	4,802	(49,942)
Donated commodities	-	61,457	61,457
Total Federal Sources	<u>560,048</u>	<u>598,240</u>	<u>38,192</u>
Total Revenues	<u>952,219</u>	<u>1,024,133</u>	<u>71,914</u>
Expenditures:			
Salaries	415,000	409,962	5,038
Employee benefits	322,000	319,599	2,401
Purchased services	4,500	3,662	838
Food	275,000	234,192	40,808
Equipment	500	470	30
Other expenditures	13,500	11,878	1,622
Donated commodities	-	61,457	(61,457)
Total Expenditures	<u>1,030,500</u>	<u>1,041,220</u>	<u>(10,720)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(78,281)</u>	<u>(17,087)</u>	<u>61,194</u>
Other Financing Sources (Uses):			
Transfer in	70,000	60,000	10,000
Total Other Financing Sources (Uses)	<u>70,000</u>	<u>60,000</u>	<u>10,000</u>
Net Change in Fund Balances	<u>(8,281)</u>	<u>42,913</u>	<u>71,194</u>
Fund Balances - Beginning	<u>(64,017)</u>	<u>(64,017)</u>	<u>-</u>
Fund Balances - Ending	<u>\$ (72,298)</u>	<u>\$ (21,104)</u>	<u>\$ 152,388</u>

SOUTH SANPETE SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES – BUDGET AND ACTUAL – MAJOR DEBT SERVICE FUND
For The Year Ended June 30, 2005

	<u>Final Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Revenues:			
Local Sources:			
Property tax	\$ 842,283	\$ 1,108,568	\$ 266,285
Earnings on investments	2,500	4,815	2,315
Total Local Sources	<u>844,783</u>	<u>1,113,383</u>	<u>268,600</u>
State Sources:			
Capital outlay foundation	531,324	269,923	(261,401)
Total State Sources	<u>531,324</u>	<u>269,923</u>	<u>(261,401)</u>
Total Revenues	<u>1,376,107</u>	<u>1,383,306</u>	<u>7,199</u>
Expenditures:			
Debt service:			
Bond & note principal	1,171,600	1,171,527	73
Bond & note interest	206,100	206,096	4
Miscellaneous expenditures	200	178	22
Total Expenditures	<u>1,377,900</u>	<u>1,377,801</u>	<u>99</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,793)	5,505	7,298
Other Financing Sources (Uses):			
Transfer in	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances			
Fund Balance - Beginning	1,793	1,793	-
Fund Balance - Ending	<u>\$ -</u>	<u>\$ 7,298</u>	<u>\$ 7,298</u>

SOUTH SANPETE SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES – BUDGET AND ACTUAL – MAJOR CAPITAL PROJECTS FUND
For The Year Ended June 30, 2005

	<u>Final Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget -</u>
Revenues:			
Local Sources:			
Property taxes	\$ 373,618	\$ 491,737	\$ 118,119
Earnings on investments	10,000	28,448	18,448
Total Local Sources	<u>383,618</u>	<u>520,185</u>	<u>136,567</u>
State Sources:			
Capital outlay foundation	275,000	295,231	20,231
Total State Sources	<u>275,000</u>	<u>295,231</u>	<u>20,231</u>
Total Revenues	<u>658,618</u>	<u>815,416</u>	<u>156,798</u>
Expenditures:			
Operation and maintenance of facilities	75,000	-	75,000
Facilities acquisition and construction:	593,000	550,208	42,792
Total Expenditures	<u>668,000</u>	<u>550,208</u>	<u>117,792</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(9,382)</u>	<u>265,208</u>	<u>274,590</u>
Other Financing Sources (Uses):			
Sale of fixed assets	1,000	3,300	2,300
Total Other Financing Sources (Uses)	<u>1,000</u>	<u>3,300</u>	<u>2,300</u>
Net Change in Fund Balances	<u>(8,382)</u>	<u>268,508</u>	<u>276,890</u>
Fund Balance - Beginning	<u>902,959</u>	<u>902,959</u>	<u>-</u>
Fund Balance - Ending	<u><u>\$ 894,577</u></u>	<u><u>\$ 1,171,467</u></u>	<u><u>\$ 276,890</u></u>

**SOUTH SANPETE SCHOOL DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
STUDENT ACTIVITIES AGENCY FUND
For The Year Ended June 30, 2005**

	Balance at July 1, 2004	Additions	Deductions	Balance at June 30, 2005
Assets:				
Cash and investments	<u>\$ 384,662</u>	<u>\$ 1,221,907</u>	<u>\$ 1,188,328</u>	<u>\$ 418,241</u>
Liabilities:				
Elementary Schools:				
Ephraim Elementary	\$ 9,644	\$ 77,462	\$ 74,730	\$ 12,376
Manti Elementary	49,939	67,954	68,158	49,735
Gunnison Elementary	<u>7,325</u>	<u>51,353</u>	<u>54,513</u>	<u>4,165</u>
Total Elementary Schools	<u>66,908</u>	<u>196,769</u>	<u>197,401</u>	<u>66,276</u>
Middle Schools:				
Ephraim Middle	70,831	138,675	146,869	62,637
Gunnison Middle	<u>29,762</u>	<u>129,560</u>	<u>104,127</u>	<u>55,195</u>
Total Middle Schools	<u>100,593</u>	<u>268,235</u>	<u>250,996</u>	<u>117,832</u>
High Schools:				
Manti High	106,329	322,053	317,137	111,245
Gunnison High	<u>107,854</u>	<u>422,911</u>	<u>409,299</u>	<u>121,466</u>
Total High Schools	<u>214,183</u>	<u>744,964</u>	<u>726,436</u>	<u>232,711</u>
Alternative Schools				
Central Utah Academy	2,973	5,634	7,619	988
Sanpete Academy	<u>5</u>	<u>6,305</u>	<u>5,876</u>	<u>434</u>
Total Alternative Schools	<u>2,978</u>	<u>11,939</u>	<u>13,495</u>	<u>1,422</u>
Total Liabilities	<u>\$ 384,662</u>	<u>\$ 1,221,907</u>	<u>\$ 1,188,328</u>	<u>\$ 418,241</u>

**SOUTH SANPETE SCHOOL DISTRICT
GUNNISON VALLEY PRISON FUNDS
For The Year Ended June 30, 2005**

Revenue:	
Local sources	\$ 40,271
State sources	<u>1,533,768</u>
Total Revenues	<u>1,574,039</u>
Expenditures:	
Salaries	871,974
Benefits	170,571
Insurance	150,447
Outside Services	17,037
Travel	1,680
Supplies and materials	73,839
Equipment	16,349
Building project	26,444
Indirect costs	<u>120,487</u>
Total Expenditures	<u>1,448,828</u>
Excess (Deficiency) of Revenues (Under) Expenditures	125,211
Balance, Beginning of Year	<u>(100,368)</u>
Balance, End of Year	<u><u>\$ 24,843</u></u>

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Jensen & Keddington, P.C.

Certified Public Accountants

Jeffrey B. Jensen, CPA
Gary K. Keddington, CPA
Brent E. Christensen, CPA
Jeffrey B. Hill, CPA**INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON
AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the President and Members
of the Board of Education of
South Sanpete School District
Manti, Utah

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of South Sanpete School District (the District), as of and for the year ended June 30, 2005, which collectively comprise the South Sanpete School District's basic financial statements and have issued our report thereon dated October 3, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered South Sanpete School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements.

The reportable condition noted was that there is a lack of segregation of duties in the District's accounting system. Certain individuals have access to both physical assets and the related accounting records, reconcile accounts, prepare reports, and have access to all phases of transactions. This is inherent due to the size of the District office. For details of this reportable condition, refer to the *Schedule of Findings and Questioned Costs* section of this report.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

Compliance

As part of obtaining reasonable assurance about whether South Sanpete School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain immaterial instances of noncompliance that we have reported to the management of South Sanpete School District in the accompanying *Schedule of Findings and Questioned Costs*.

This report is intended for the information of the management and members of the Board of Education of South Sanpete School District and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Jensen & Keddington

October 3, 2005



Jensen & Keddington, P.C.

Certified Public Accountants

Jeffrey B. Jensen, CPA
Gary K. Keddington, CPA
Brent E. Christensen, CPA
Jeffrey B. Hill, CPA

**REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND
INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the President and Members
of the Board of Education of
South Sanpete School District
Manti, Utah

Compliance

We have audited the compliance of South Sanpete School District (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The District's major federal programs are identified in the summary of auditors' results section in the accompanying *Schedule of Findings and Questioned Costs*. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be a material weakness. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the management and members of the Board of Education of the District and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Jensen & Keddington

October 3, 2005

SOUTH SANPETE SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2005

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Disbursements Expenditures
U.S. Department of Education			
Passed Through State:			
Title 1 Grants to Local Educational Agencies	84.010	10	\$ 446,923
Title 1 Program for Neglected and Delinquent Children	84.013	13	7,702
Special Education - Grants to States	84.027	19	814,808
Special Education - Preschool	84.173	52	70,997
Vocational Education	84.048	21	52,184
Safe and Drug Free Schools	84.186	09	28,104
Tech-Literacy Challenge	84.318	07	14,541
Migrant Education	84.011	57	49,718
Improving Teacher Quality	84.367	74	154,393
NCLB State Assessments	84.369	76	12,189
English Language Acquisition	84.365	14	16,485
			<u>1,668,044</u>
Total U.S. Department of Education			
U.S. Department of Health			
Passed Through State:			
Medicaid Title 19	93.778	RA776489	<u>207,526</u>
Total U.S. Department of Health			<u>207,526</u>
U.S. Department of Agriculture			
Passed Through State:			
Food Distribution - Commodities	10.550	N/A	61,457
School Breakfast Program	10.553	44	56,131
School Lunch Program	10.555	42/43	471,626
Special Milk Program	10.556	41	4,224
Other Federal Awards	10.558	47/49	4,802
Pass Through Sanpete County:			
Forest Reserve	10.665	N/A	<u>12,980</u>
Total U.S. Department of Agriculture			<u>611,220</u>
Total Federal Financial Assistance			<u><u>\$ 2,486,790</u></u>

SOUTH SANPETE SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2005

1. *General* - the *Schedule of Expenditures of Federal Awards* presents the activity of all federal awards of South Sanpete School District. Federal awards which were received from passed-through governmental agencies are included on the *Schedule of Expenditures of Federal Awards*.
2. *Basis of Accounting* - The Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting.
3. *Noncash Federal Awards* - Noncash federal awards that were received were in the form of food commodities. The Utah State Office of Education estimates the per unit fair market value of these commodities. Noncash federal financial assistance is calculated by multiplying the per unit fair market value by the net commodities consumed.



Jensen & Keddington, P.C.

Certified Public Accountants

Jeffrey B. Jensen, CPA
Gary K. Keddington, CPA
Brent E. Christensen, CPA
Jeffrey B. Hill, CPA**INDEPENDENT AUDITORS' REPORT
ON STATE OF UTAH
LEGAL COMPLIANCE**

The President and Members of
the Board of Education of
South Sanpete School District
Manti, Utah

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of South Sanpete School District (the District), for the year ended June 30, 2005 and have issued our report thereon dated October 3, 2005. As part of our audit, we have audited South Sanpete School District's compliance with the applicable requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2005. The District received the following major State assistance programs from the State of Utah:

Minimum School Program
School Building Program

The District also received the following non-major grants which are not required to be audited for specific compliance requirements:

Driver Education

Our audit also included testwork on the District's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Public Debt
Cash Management
Purchasing Requirements
Budgetary Compliance
Truth in Taxation and Property Tax Limitations
Fall Enrollment and Student Membership
Other General Compliance Issues

The management of South Sanpete School District is responsible for the District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying *Schedule of Findings and Questioned Costs* section of this report. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion South Sanpete School District, complied, in all material respects, with the general compliance requirements identified above and the applicable requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2005.

Tansen & Keddington

October 3, 2005

**SOUTH SANPETE SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2005**

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the basic financial statements of South Sanpete School District
2. There is one reportable condition disclosed during the audit of the basic financial statements that is reported in this schedule. The reportable condition is not deemed to be a material weakness.
3. No instances of noncompliance material to the financial statements of South Sanpete School District, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No reportable conditions relating to the audit of the internal control over major federal award programs are reported in this schedule.
5. The auditor's report on compliance for the major federal awards programs for South Sanpete School District expressed an unqualified opinion.
6. Audit findings relative to the major federal award programs are reported in part C of this schedule.
7. The program tested as a major program was 1.) Special Education Cluster, CFDA number 84.173A.
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. South Sanpete School District was determined to be a low-risk auditee.

B. FINDINGS – FINANCIAL AUDIT AND GOVERNMENT AUDITING STANDARDS

1. SEGREGATION OF DUTIES (Reportable Condition)

Finding

There is a lack of segregation of duties in the District's accounting system. Certain individuals have access to both physical assets and the related accounting records, reconcile accounts, prepare reports, and have access to all phases of transactions. This is inherent due to the size of the District Office. This finding was in the prior year's audit report.

Recommendation

We have observed that the District has implemented internal control procedures to help compensate for the lack of segregation of duties in the accounting system. In addition, we increased our audit procedures in areas where there was a lack of segregation of duties. We recommend that the District continue to use the internal control policies established.

C. FINDINGS – MAJOR FEDERAL AWARDS PROGRAMS

None

D. FINDINGS – STATE OF UTAH LEGAL COMPLIANCE

1. DEFICIT FUND BALANCE

Finding

The District had a deficit fund balance in the Special Revenues – Food Service fund as of the end of the year. This is a violation of the Utah Code Section 10-6-117. A similar finding was written in the prior year's audit report.

SOUTH SANPETE SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
For The Year Ended June 30, 2005

D. FINDINGS – STATE OF UTAH LEGAL COMPLIANCE (Continued)

1. DEFICIT FUND BALANCE (Continued)

Recommendation

We recommend that the District implement procedures to eliminate the deficit fund balance.

2. EXPENDITURES IN EXCESS OF BUDGET

Finding

The District's *General Fund* exceeded the budgeted expenditures by \$204,556 for fiscal year 2005. Utah State Code Section 53a-17 states, "Officers and employees of the entity shall not incur expenditures or encumbrances in excess of the total appropriates for any department of fund."

The District's *Special Revenue – Food Service Fund* exceeded the budgeted expenditures by \$10,720 for fiscal year 2005. Utah State Code Section 53a-17 states, "Officers and employees of the entity shall not incur expenditures or encumbrances in excess of the total appropriates for any department of fund." A similar finding was written in the prior year's audit report.

Recommendation

We recommend that the District closely monitor expenditures in the funds to ensure the District is in compliance with Utah State Code.

**SOUTH SANPETE SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
For The Year Ended June 30, 2005**

2004 #1. SEGREGATION OF DUTIES (Reportable Condition)

Finding

There is a lack of segregation of duties in the District's accounting system. Certain individuals have access to both physical assets and the related accounting records, reconcile accounts, prepare reports, and have access to all phases of the transactions. This is inherent due to the size of the District office. This finding was in the prior year's audit report.

Recommendation

We have observed that the District has implemented internal control procedures to help compensate for the lack of segregation of duties in the accounting system. In addition, we increased our audit procedures in areas where there was a lack of segregation of duties. We recommend that the District continue to use the internal control policies established.

Current status

Inherent to the size of the District there are no controls that can be set up to avoid this finding on segregation of duties.

2004 #2. DEFICIT FUND BALANCE

Finding

The District had a deficit fund balance in the Special Revenues – Food Service fund as of the end of the year. This is a violation of the Utah Code Section 10-6-117. A similar finding was written in the prior year's audit report.

Recommendation

We recommend that the District closely monitor expenditures in the funds to ensure the District is in compliance with Utah State code.

Current status

The recommendation was implemented during the year in an attempt to reduce the deficit fund balance. The negative fund balance decreased by \$42,913 during the current year.

2004 #3. EXPENDITURES IN EXCESS OF BUDGET

Finding

The District's Special Revenue – Food Service fund exceeded the budgeted expenditures by \$19,588 for the fiscal year 2004. Utah State Code Section 53a-17 states, "Officers and employees of the entity shall not incur expenditures or encumbrances in excess of the total appropriates for any department or fund." A similar finding was written in the prior years report.

Recommendation

We recommend that the District closely monitor expenditures in the funds to ensure the District is in compliance with Utah State code.

Current status

The recommendation was implemented during the year in an attempt to reduce the deficit fund balance. The negative fund balance decreased by \$42,913 during the current year.

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Donald R. Hill
Superintendent

Brenan L. Jackson
Assistant Superintendent

R. Paul Gottfredson
Business Administrator

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ATE Director

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October 1, 2005

Jensen and Keddington
Certified Public Accountants
292 South College Drive
Suite 101
Salt Lake City, UT 84123

Dear Jensen and Keddington:

As Business Administrator, I have been asked to respond to the Schedule of Findings and Questioned Costs relating to the 2004-05 Audit of South Sanpete School District.

Segregation of Duties:

District personnel are well aware of the over-lap of duties that are inherent to districts of our size and geographic location. There are many internal-control procedures that have been implemented to assure that those individuals who have access to both physical assets and accounting records do not have total and complete control of either assets or accounting records. The South Sanpete Board of Education is very aware of this inherent problem. The District will continue to use the internal control policies that are established.

Deficit Fund Balance: (Legal Compliance Issue)

The District has a deficit-fund balance in the special revenues – Food Service Fund. This Fund contains revenues and expenditures associated with the School Lunch Program in the District. During the FY05 year, the Board transferred funds from the M & O Fund into Fund 49. The District will continue to budget and transfer funds from Fund 10 to reduce the deficit-fund balance in Governmental Fund 49.

Expenditures in Excess of Budget: (Legal Compliance Issue)

The district's General fund exceeded the budgeted expenditures for fiscal year 2005. In reviewing the budget to actual we have noted that the majority of this finding is in employee benefits. We have made adjustments in the budget for fiscal year 2006 to make sure that our benefit costs are inline with the approved budget.

Audit notes also indicate that the Food Service fund exceeded the budgeted expenditures. Free and Reduced revenues have declined over the past several years and conversely the District anticipated an increase in Paid Meals revenue. However, decreased participation in the Child Nutrition Program, with constant fixed costs, is a factor of expenditures exceeding revenues. Portions of the District's corrective action plan includes a focus on increased participation as well as a reduction in fixed costs.

Thank you for these comments and recommendations.

Respectfully,


R. Paul Gottfredson
Business Administrator